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UNDER SECRETARY FOR MANAGEMENT
U.S. DEPARTMENT OF STATE
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Economic Development, Public Buildings, and Emergency Management
House Transportation and Infrastructure Committee
"How to Stop Sitting on our Assets: A Review of the Civilian Property Realignment Act"
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Thank you for inviting me to appear before you today to discuss the State Department's management of its overseas property and the Civilian Property Realignment Act (CPRA). As the Under Secretary for Management, I oversee ten bureaus that provide logistic, security, and other administrative support to the U.S. Government's diplomatic and consular presence around the world. One of these bureaus, Overseas Buildings Operations (OBO), directs the worldwide overseas building program for State and the U.S. Government community serving abroad under the authority of our Ambassadors. The Department, in concert with other foreign affairs agencies, and Congress, sets worldwide priorities for the design, construction, acquisition, maintenance, use, and sale of real properties and the use of sales proceeds. The Overseas Buildings Operations bureau's mission is to provide more secure, safer, more functional, and well maintained facilities for the promotion of U.S. interests worldwide.

American diplomats were first sent abroad by President George Washington in 1779 to France and Spain; an important qualification in choosing our earliest diplomatic envoys was ensuring that they had the personal wealth to pay for their own lodging, office space, transportation, and other expenses. The first real property owned by the United States abroad was a building given to us in 1821 by the Sultan of Morocco in Tangier. Over time, the Department began acquiring property in order to house our embassies and consulates. Today, the State Department's real estate portfolio encompasses nearly 18,000 properties in over 260 cities worldwide.

Foreign Service Buildings Act of 1926

Our overseas real estate program is largely guided by the Foreign Service Buildings Act of 1926. It empowered the Secretary of State to acquire by purchase or construction, within limits of appropriations, sites and buildings in foreign capitals and cities, and to alter, repair, and furnish such buildings for the use of the diplomatic and consular establishments of the United States.

The Act also states that the space in such buildings shall be allotted by the Secretary of State among the several agencies of the United States Government. Thus our embassies and consulates abroad provide office space not just for the State Department but also for over 30 other agencies, ranging from the Agency for International Development, Defense, Treasury, Commerce, and Agriculture, to Homeland Security, Justice, and the Library of Congress. We provide the office space for all these agencies to carry out U.S. foreign policy and protect our national security, including engaging with foreign governments, promoting democracy, protecting U.S. citizens abroad, advancing U.S. trade and prosperity, combating terrorism, fighting disease, and promoting human rights. The overall USG presence abroad continues to increase as our increasingly complex world calls for multiple agencies' particular skills in advancing U.S. national interests. From FY 2008 to FY 2011, overseas staffing increased by 12.7%. Among others, Defense staff under Chief of Mission authority grew by 10.5%, Homeland Security by 9.4%, and Health and Human Services grew by 44.9%.

The 1926 Act was amended in 1945 to allow the Department to retain 100 % of proceeds from property sales, and to apply these proceeds toward the acquisition, construction, or other purposes authorized by the Act, as in the judgment of the Secretary may best serve the Government's interest. Sales proceeds are used to acquire safe and secure housing worldwide and for other real estate projects according to need and OBO approval. We have been successfully using proceeds to buy properties to carry out our national security mission, to replace costly leased property, and to fund construction costs of some new facilities. This is critical as it has enabled us to leverage our assets and avoid having to request the authorization and appropriation of these funds.

Since 1945, our ability to retain and reinvest our sale proceeds has been a consistent source of funding for our property management activities abroad, reducing our need for appropriated funds. OBO has a robust program to sell and otherwise dispose of designated properties. In the last 10 years, we have sold 195 properties for over $450 million and purchased new ones (these sales figures are from our routine on-going efforts). Sales income can vary widely from year to year because properties that become available for sale are worldwide and subject to the vagaries of a world-wide market. If properties become available for sale in good locations with strong markets, we tend to generate more proceeds than some other locations around the world where there is little demand and property values are low. Nevertheless, OBO is highly motivated to identify and dispose of designated property.

The proposed Civilian Property Realignment Act would enact into law many of the practices that the Department has been following for years. But the Foreign Buildings Act also allows flexibility for the Department to address its unique position as an overseas property owner, and to maintain and operate our diplomatic and consular properties so that both State and our tenant agencies can carry out the United States' foreign policy and national security mission.

Mr. Chairman, you outlined H.R. 1734's goals in your May 5th statement, and the State Department is very proud of the fact that we are already implementing them under our current authorities.

Consolidating Our Footprint

After the bombings of our two East African embassies in 1998, the Department embarked on a major construction program to replace our unsecure and unsafe diplomatic facilities. Since 2001, we have completed 79 new facilities, and have another 33 under design or construction. The Secure Embassy Construction and Counterterrorism Act of 1999 generally requires that we colocate all US Government employees under Chief of Mission authority at a new embassy onto one compound. With our New Embassy Compounds, not only do we gain safe and secure compounds, we are able to consolidate the footprint of our diplomatic and consular facilities, often giving up 5 or 6 separate buildings to collocate onto one compound.

In addition to the security benefits, this consolidation increases efficiency and reduces our reliance on costly leased space.

Maximize the utilization rate of federal buildings and facilities

In addition to the consolidation efforts we engage in for the construction of new facilities, Embassy and Consulate management staff are assisted by our professional space planners in Washington in ensuring that we achieve maximum utilization of every possible square foot of space.

For example, USAID and State are consolidating server rooms and warehouses. We are using floorplate designs which allow for installation of smaller cubicles to handle surge capacity rather than to build larger facilities. We have temporarily split apartment units in Iraq and Afghanistan which can later be changed back to regular sized apartments. At some posts, double shifts for some operations have reduced the demand for additional space.

As noted above, the U.S. Government's evolving mission overseas has required increased staffing. In many posts, the staff now fulfilling these missions exceeds the level for which the facility was originally planned. In such cases, the Department provides posts with space planning services to reconfigure existing space to meet changing requirements and reduce the need for expansion through additional construction or off-compound leased space.

- For example, the Department received a request from Embassy Tel Aviv, Israel, in April 2010 to reconfigure and upgrade the Consular Section. The Department provided the Embassy with a new layout reducing the size of workstations and offices by 25%, gaining 10 more desk spaces. This accommodated added staffing in a cost-effective manner, and provided better working conditions.

- In Paris, maintenance workshops were moved into space in the Embassy allowing leased space to be given up. The lease was cancelled in January 2010 and the annual savings were approximately $300,000.

- In Rome, the U.S. Mission to the UN agencies (24 employees) is on the fourth floor of an office building in central Rome. The Department is renovating the former Public Affairs Annex on the main Embassy Rome compound for the U.S. Mission. The scheduled move is late summer 2011 and annual lease savings will be over $470,000.

Savings such as these will help offset rising lease costs around the world. Overall, our overseas facilities colocate multiple agencies into single buildings or compounds. Our overseas properties are characterized by a high rate of utilization, with almost 99% classified as either fully utilized or over-utilized.

Reduce the reliance on costly leased space

Our global property portfolio includes offices, housing, warehouses, and other properties. Over 80 % of these proprieties are residential; of those, three-quarters are short-term leased (a lease of less than 10 years). Our Real Property Acquisition Initiative taps into the Department's unique authorization to keep and utilize the proceeds of sale from excess properties, and thereby reduce our reliance on costly leased space. The Department monitors market developments, financial trends, real estate conditions, and currency movement to identify locations around the world where favorable opportunities for purchase exist or are developing.

The Department's goal is to own a minimum of 40% of its housing worldwide; we currently own about 26%. Maintaining some leased housing provides flexibility to address changing conditions (varying family sizes, staffing distributions, etc.).

Proceeds from the sale of excess properties around the world are utilized by the Department for real estate purchases that generate a solid financial return and meet Department and other USG requirements. Returns are measured by analyzing cost-to-rent versus cost-to-own. The 'return' is the rent that is saved. When calculating Internal Rates of Return (IRR), very conservative property value increases are projected, to avoid overstating the long-term benefits of a purchase. The Department has successfully resisted pressure to accommodate higher profile posts at the expense of less visible locations. Purchases are made considering the highest and best direct benefit to the American taxpayer, while also considering the safety and security of Government staff often assigned to difficult postings.

Since in these tight budget times we have not been able to use appropriated funds to increase State's staff housing ownership percentage, OBO has reinvested its sale proceeds to acquire housing in locations where strong returns (no less than 8%) can be achieved and/or where the lack of safe or suitable housing dictates that OBO find creative ways to fill that need. For example --

- In Nairobi, after the Embassy bombing in 1998, OBO recognized the need for more secure staff housing. Lack of acquisition funds led to an agreement with a local developer to build a 60-unit housing compound that State leased in its entirety. The master lease agreement contained an option-to-purchase, in the event funds ever became available to acquire the property, named Rosslyn Ridge. In 2010, OBO acquired Rosslyn Ridge, using sale proceeds from earlier sales of designated properties. The Internal Rate of Return (IRR) to American taxpayers over a 10-year holding period will be at least 9%.

- In Budapest, the Embassy was leasing two apartments in a three-apartment house. The building was appropriately located but a difficult landlord made continued occupancy untenable. OBO was able to negotiate a purchase agreement and the Embassy dropped a more expensive lease elsewhere to fill the third apartment. This deal overall will generate an IRR of better than 12%.

From FY 2004 through FY 2010, the Department purchased 265 properties and saved annual rent of at least $11.23 million with an average IRR of over 11%. This is very important as this enables us to better cope with the constantly rising rental costs as well as the depreciating value of the U.S. dollar.

In each case for the program, the purchase must meet or exceed the 8% rate of return that the Department has set as a minimal hurdle for all acquisitions that are not security driven. Additionally, in countries with high economic or political risk purchases must exceed an even higher hurdle rate that is established based upon recognized, published risk factors.

In addition to buying property to replace leases, the Department's property program is also committed to keep lease costs to a minimum. While residential leases are managed by our posts, OBO monitors and manages the overall leasing program, including these measures:

- OBO has to approve any lease over $25,000 per year;
- OBO has developed rental cost benchmarks at 160 posts that measure post rents against market rent and, updated annually, ensure that the USG is not paying above-market rents for staff housing;
- OBO has set size standards for housing and works with posts to enforce these housing standards; and
- OBO has abstracted key terms from 1,500 major leases to assist in lease renewal and identify possible purchases.

Improved maintenance and operations to reduce costs.

The Department has implemented the following initiatives to improve the maintenance and operations of its overseas real property assets.

Value Engineering Saves Funds and Avoids Costs

Value Engineering (VE) is a function-oriented, systematic, creative, team approach that concentrates on lower life cycle costs while improving quality and performance and results in a report with recommendations for improvements. VE is a powerful tool for solving problems and improving value, in terms of cost, quality, and performance of a project. The Department's VE Program was established in 1987 in order to improve costs and functionality of the various projects. Beginning in 2000, with the build-up of the Department's Capital Security Construction Program (the most aggressive construction program in the history of the Department), there was a need for greater attention to what it cost to build and operate a new facility. At that time, the VE Program was amended and strengthened to enable all the Department projects to utilize its process to improve cost, quality, and performance. There is a return on investment of over $47 for each $1 spent on the Department VE program. Savings are generated, for example, by scaling back over-designed features or by replacing expensive items with lower cost alternatives while maintaining required functionality.

Energy and Sustainability Initiatives

OBO has long pursued sustainability and environmental stewardship. Though the Department's stated mission is to "...provide secure, secure, and functional facilities," the Department also strives to “green” the Department’s embassies and consulates around the world to build international models of sustainability as solid platforms of eco-diplomacy and reduce the Department’s energy costs and environmental footprint.

To accomplish this objective and as part of a commitment to achieving the goals of Executive Order 13514 to the extent practicable, the Department integrates sustainability into standard planning, design, and construction practices. A key part of this strategy is LEED® certification of capital construction projects. Although the Department has used LEED as a design tool for the last decade, the Department began certifying projects three years ago and as of FY 2008 requires LEED certification of all New Embassy Compound, New Consulate Compound, and New Office Annex (NOX) projects. As of FY2010, LEED certification is required at the Silver level.

Standard sustainability strategies and technologies are included as part of the base budget for both capital construction and renovation projects. For the capital projects and major renovation projects that the Department executes each year, approximately $19 million is expended on site-specific sustainability strategies, with an expected average life cycle savings of $1.9 million per year, based on the Department’s ten-year payback criterion. These savings will accrue to all agencies and to the American taxpayer.

Empirical energy data from previous projects shows that on average, capital construction projects perform 20% better than baseline, non-sustainable projects. Similarly, data shows that sustainability reduces water consumption by approximately 30%. The Department is starting to see similar performance metrics on renovation projects.

Reduce redundancy, overlap, and costs associated with field offices

In essence, the Department manages over 275 field offices around the world. We are ever conscious of minimizing our footprint to the extent practicable, for both cost-efficiency as well as security reasons in today’s global environment. In order to reduce overlap and costs:

- Since 2001, OBO has been producing a Long-Range Overseas Buildings Plan that sets out a 6-year construction schedule for new embassies and consulates; this plan also includes a global real estate management plan that identifies potential transactions at all posts. In 2010, OBO produced the first edition of the Long-Range Overseas Maintenance Plan, which identifies maintenance and renovation projects at all posts in order to more comprehensively estimate our future maintenance costs. The next versions will be combined into one Long-Range Plan.
- We continuously seek to reduce the operating and maintenance costs of our new diplomatic and consular properties. Through our Design Excellence program and lessons learned, we review our recent projects for ways that we can improve space utilization and reduce both construction and operating costs. For embassies that will not be replaced, we consolidate and reconfigure space, and implement other operational efficiencies.

- President Obama signed a Presidential Memorandum on June 10, 2010, directing executive agencies to accelerate efforts to eliminate excess real property and better manage their existing real estate portfolios. Agencies were tasked to develop Real Property Cost Savings and Innovation Plans that include cost savings initiatives underway and planned. State's plan presents efforts the Department will make to:

  1. Increase the income generated through disposals;
  2. Reduce annual operating costs; and
  3. Better utilize real property by undertaking space realignment efforts, including optimization or consolidation of existing space within Government-owned buildings.

  The Department has already achieved nearly 30% of its overall goal for the end of FY 2012 by disposing of designated assets, improving value engineering, and employing energy saving strategies.

Facilitate and expedite the sale or disposal of unneeded civilian properties

Presently, there are 76 USG-owned properties overseas considered for disposal. OBO lists some of these properties on its website. Properties are broken down by geographic region, as well as by type of property. http://www.state.gov/obo/realestate/index.htm.

Every year, an Ambassador must file a certification that certain performance measures and programs are in place at post. The Ambassador must certify annually that the post real property inventory data is correct, in order to identify and dispose of excess space and/or to maximize under-utilized space.

In 2008, OBO negotiated the exchange of three 1950's barracks-style apartment buildings in Berlin for the German government-owned Clayallee office building, which formerly housed the headquarters of U.S. forces in Berlin. It is now being used by Embassy Berlin as consular and office space for multiple agencies, thus resolving a pressing need for office space generated by the staffing increase caused by the move of the German government from Bonn to Berlin. This transaction resulted in maximizing functionally obsolete housing for a much-needed asset into which the USG had already invested millions in upgrades and other improvements.

Oversight

The Department's real property program has been studied by the Government Accountability Office (GAO) and the State Department's Office of Inspector General (OIG). The OIG strives to inspect each post every 5 years, and makes recommendations for the disposal of real property. Management of Federal real property is one of GAO's high risk areas. We take OIG and GAO recommendations seriously, and have used them to improve our management of real property.

The Department also submits regular reports to Congress on its real property sales and purchases. OBO has been reporting to Congress since 1997 on its real property sales and purchases. We do a quarterly real estate report that summarizes the acquisitions and disposals for each quarter, with costs and proceeds realized, and identifies properties for possible disposal for the next 2 fiscal years. An annual report is also submitted that lists overseas properties for sale; this year's report lists 76 properties identified for possible disposal from 2011 through 2012.

The CPRA and the Department of State

The Administration's draft proposal included a separate section on diplomatic and consular properties that reflects the unique nature of overseas property management and the challenges we face, by allowing the Secretary of State to remove any transaction from the Board's list of recommendations to the Office of Management and Budget that involves a civilian real property asset located outside of the United States that is owned or managed by OBO. It is imperative that the Department have maximum ability to negotiate with host governments, to vacate properties where local conditions have changed, and to acquire property in order to carry out foreign policy priorities. Overseeing the Department's overseas properties in the same manner as domestic Federal property in not possible given the very different conditions that prevail overseas and would hinder the re-investment of proceeds at very favorable rates. Though the proposal acknowledges the Department's unique mission, the State Department will continue to be an enthusiastic participant in the President's efforts to transform Federal real estate management.

Various factors impact our ability to sell excess real estate. Foreign governments, for example, have the right to approve or disapprove the sale of diplomatic and consular properties – a right that the U.S. Government itself also invokes in the United States.

In conclusion, Mr. Chairman, I believe that the State Department has been effectively managing and implementing its overseas real property activities for years, and the retention of sale proceeds is a key element. Retaining 100 percent of sale proceeds allows us to purchase property to address pressing operational needs and to reduce our reliance on costly leaseholds. It also allows us to reduce our requests for increased appropriated funding. We are very conscious of the interest in effective property management by both the Congress and the Administration, and we will strive to continue our efforts in effective and results-oriented asset management.